Don't Be Taken for a Ride

Guide to Auto Leasing

Introduction

Since 1982, the number of drivers who lease rather than buy their cars has increased eightfold. One out of every three New Jersey residents now leases a vehicle. Unfortunately, as the number of leases has increased, so has the number of complaints of consumer fraud and deception.

In response, on December 23, 1994, Governor Christine Todd Whitman signed into law the Consumer Protection Leasing Act ("CPLA"), N.J.S.A. 56:12-60 et seq., establishing what are perhaps the strongest motor vehicle leasing standards in the nation. The law ensures greater protection for New Jersey consumers by requiring lessors to disclose detailed information about crucial terms of their leases.

In addition, the Board of Governors of the Federal Reserve System has changed the Federal leasing law. The Federal leasing law, which took effect on January 1, 1998, incorporates many of the concepts embodied in New Jersey's CPLA.

The CPLA requires the Division of Consumer Affairs ("Consumer Affairs") to educate consumers about leases. As part of its statutory obligations, Consumer Affairs has prepared this booklet. With the help of this booklet, the "Don't Be Taken For A Ride Guide to Auto Leasing," you can determine whether leasing or buying is right for you; and if you do lease, how to make certain you negotiate the best possible deal.

If you are considering leasing a vehicle, you should know that...

The most important right you have as a lessee is to be free from fraudulent practices. However, you should also realize that you have a right to be given important key and accurate information about your lease without having to endure undue sales pressure and confusing or mysterious language. The CPLA and the Consumer Fraud Act ("CFA"), N.J.S.A. 56:8-1 et seq., incorporate these rights for New Jersey consumers into law.

Why do people lease?

The lure of a lease is its monthly price. Consumers often find that they can lease cars at lower monthly payments than they would if they were purchasing. Advertisements of "no down payments," "low monthly payments," and "more car for your dollar," are naturally very appealing.

The United States Department of Commerce reports the average price of a new car is approximately $23,049. As a result, more consumers are leasing as an alternative to buying new vehicles.

Before you make up your mind and lease that fancy sports car or brawny sport utility vehicle, ask yourself two basic questions:

1. Will it be cheaper in the long run to buy or lease this vehicle?
2. If I lease, how do I get the best deal?

To answer these questions, a consumer must ask and answer other questions.

What is a lease?

A lease is basically a long-term rental agreement – more than 120 days – to drive a vehicle owned by someone else. You are paying for the right to drive that vehicle and are paying for the value of the car while you drive it. When the lease is over, you must give the vehicle back unless you have the option to buy it.

Before you sign the lease, take the time to review it carefully. Write down any questions that may arise during your review of the lease contract, and be sure to pose any questions you may have to the salesperson. Make sure you understand the answers to your questions before signing the contract. Also, be certain to get everything in writing. For example, if you're told that you can turn the car in early without having to pay an extra penalty, don't take the salesman's word for it, **get it in writing**.

Under the CPLA, you are given a one-day, cooling-off period to review the lease contract. This innovative provision allows you to bring the unsigned agreement home to review the numbers and to determine whether that agreement is right for you. Not doing so could prove costly.

A lessor may suggest that you waive your right to review the contract; however, you might not want to do that. In fact, you should think long and hard before doing so. Remember, there are very few deals that are so good that they will not be available 24 hours later.

How often do you purchase a new vehicle?

When you consider buying versus leasing, you need to ask yourself how long you plan to keep the vehicle. The average consumer buys a new vehicle every four years. If you are not one of these consumers and trade in your car every two or three years, a good leasing deal may be better for you. If you tend to keep your car for a longer period of time, purchasing a vehicle may be better. The longer you drive a car on which payments are no longer due, the lower the average of your monthly costs are likely to be.

Example: A car priced for sale at $10,000 will cost $277 a month for 36 months, $208 a month for 48 months or $166 a month over 60 months, not counting interest costs. When leasing that same car, monthly payments are fixed at whatever price you have negotiated – regardless of the length of the lease.

Another consideration is crucial. At some point, the **owner** of a car no longer makes payments and drives it for "free." When he or she goes to buy or lease another vehicle, he or she has the car which has been paid for in full as an asset to trade in towards his or her next purchase or lease. In contrast, when a consumer returns his or her **leased** vehicle, he or she has nothing to trade in towards the cost of a new lease or purchase.

What can you afford?

Many consumers are attracted to lease deals because of advertised low monthly prices. While everyone likes low prices, there may be additional, less-obvious costs associated with leasing. In the long-run, these expenses may cost you more than buying the car. Lessors charge any number of fees at the beginning and end of the lease which may not appear when you purchase a vehicle. These fees add up and may make that good deal appear less so.

Do you put a lot of wear and tear on the car?

If you are rough on your automobile, then leasing is probably NOT for you. Lessors typically charge for "excess wear and tear." The CPLA helps you sort out what this phrase means, but if you are the kind of driver who gets a lot of dents and/or scratches, you can expect additional charges. Repairs that need to be made become an out-of-pocket expense for you at the end of the lease.

Understand the effect of trade-ins and down payments.

The key thing to remember is that any money you put down on your lease or any vehicle that you have used as a trade-in to reduce your monthly payments is money you no longer have available to you and money you will not get back at the end of the lease. While you lower your monthly payment, you will not have that money to purchase another car at the end of the lease. You also will not have one car to trade in for another. At the end of the lease, whether you have put no money down or have put several thousand dollars down, the leasing company will charge you the same amount of money for the car should you choose to purchase it. The only thing you accomplish with a down-payment or a trade-in is to lower your monthly payments.

Be on the lookout for special factory-subsidized lease deals.

To make a lease more attractive to consumers, car manufacturers may adjust the residual value (see page 13) or lower the finance charges on the vehicle being leased. Doing this allows them to offer leases through their companies at lower money factors (see page 12) than those offered by banks. They realize that consumers who lease vehicles from them do more repeat business than consumers who purchase vehicles. The dealer's profit is on the difference between the price the dealer paid for the vehicle and the price the dealer sells the vehicle to the leasing company for, as well as items such as service contracts, undercoating the car and alarms.

OK, so you think leasing is a good idea for you.

You have asked yourself all the right questions and the answers add up to the same conclusion: you want to lease. Now is the time to ask yourself two crucial questions. First, how does the lessor calculate the monthly payment? Second, can I get a lower monthly rate? You can't answer the second question unless you know the answer to the first. Lessors do not pluck monthly figures out of thin air. Once you understand how the lessor sets the monthly rate, you can negotiate with the lessor on even footing.

Know the language of the industry.

The first step is to understand the key terms of the lease. Many of the terms in a lease have special meaning – particularly the key words. Before you negotiate your lease, you should learn these special definitions. You may know terms such as "down-payment" and "MSRP," but you may not be familiar with others such as "cap cost" and "gap coverage." Once you have learned the terms used by lessors, you will be better prepared to negotiate your lease. The following glossary will help you to become more familiar with the terms used in leasing, and, as a result, help you to be better prepared to negotiate your lease.

Auto Leasing Guide Glossary

Adjusted Capitalized Cost –

This is the amount used in calculating your base monthly payment. It is the Gross Capitalized Cost minus any Capitalized Cost Reduction.

"After-Sell" Items –

This is any product or service sold to the consumer by the dealership which is not otherwise standard equipment. These additions could be items such as a CD player, alarm system, life and disability insurance, extended service contracts, undercoating.

Administrative Fee –

This term is also referred to as a bank fee or an acquisition fee. This is a fee charged by a leasing company to process a consumer's lease application. It is usually incorporated in the Gross Capitalized Cost. This amount, however, may be paid up front as a separate charge.

Capitalized Cost, Cap Cost or Gross Capitalized Cost –

This is equivalent to the selling price. This is the starting point for calculating your lease costs and includes a dollar value for the car ***plus*** any additional charges such as:

- service contracts;
- additional equipment including a CD player, alarm system, undercoating, etc.; and
- any outstanding prior balance on a trade-in.

You do have the option to be provided with a separate list of the items if they are not already included in the contract. Also included is the 6 percent New Jersey Use Tax which is calculated on the difference between the Gross Capitalized Cost and the Residual Value.

Capitalized Cost Reduction –

This is similar to a down-payment. This can include amounts to be paid in cash, noncash credit, rebate and/or trade-in allowance. Since this reduces the monthly lease payments, it is taxable. This is one way to reduce your monthly payment but it is not money that you will recover at the end of the lease. You are basically paying part of the monthly payments in one lump sum, thereby reducing the amount due each month.

Car Lease –

This is a form of renting a car for a longer term (over 120 days), as defined by New Jersey law. The vehicle is usually leased at a dealership. The vehicle and the lease are then purchased by a leasing company. The lease is memorialized in a written contract. There are two types of leases: closed-end leases and open-end leases.

Closed-End or "Walk-Away" Lease –

A lease where the lessee returns the car without owing any money at the end of the lease term except for excess mileage and wear and tear. "Open-End Lease" is the other type of lease and is defined here in the glossary. (See page 13 for definition of "open-end lease.")

Depreciation –

The value that the vehicle loses during the lease term. It is the difference between the vehicle's capitalized cost and the vehicle's value when the lease expires (residual value).

Disposition Fee –

This is very important for consumers to understand before signing the lease. A "disposition fee" is defined also as a reconditioning fee, end-of-term fee or a termination fee. It's a charge, usually no more than $500, that must be paid upon termination of the contract. If the consumer has a security deposit, the disposition fee could be taken from that and the consumer will be billed for the remaining balance, if any remains.

Down Payment –

See "Capitalized Cost Reduction."

Early Termination –

There are two basic ways of pursuing the early termination of a lease. This can be done by paying the remaining amount on the lease and returning the car to the lease company, or by mailing the remaining lease payments as well as the purchase price and then buying the vehicle.

You may be able to negotiate a reduction of any of the unearned rent charge when you terminate your lease early. Read the contract carefully to understand how early termination charges will be calculated. Remember, if you default on the lease, the charges can be substantially more, depending on the contract.

Excess Mileage Charge –

Some leases charge from 10 to 20 cents a mile for any miles over the agreed amount in the contract. For example, .10 x 10,000 miles over the allowable miles = $1,000 due at the end of the lease. Check for a "per mile charge" in writing and be realistic about your mileage before you sign the contract. The contract allows for a standard amount of miles, but you do have the option to purchase additional miles. You may want to consider padding the miles that you expect to use since it is less expensive to contract for the additional miles before the contract is signed, than to pay a charge that is calculated per mile after the lease is terminated. Determine the amount that you will be charged over the mileage that you have agreed to in the contract.

Gap Coverage or Gap Insurance –

This is a special type of coverage offered to consumers who lease automobiles. It is intended to protect consumers, if the leased vehicle is lost or stolen, for the difference or "gap" between the consumer's actual outstanding lease obligations and the amount of coverage a consumer's auto insurance policy provides. Typically, auto insurance policies pay only the market value at the time of the loss of a vehicle, while leases frequently require the lessee to pay all of the leased obligations. The difference could be thousands of dollars. This coverage is usually included in the lease agreement. Check to see if the coverage is already provided so that you do not pay for it twice. Gap coverage is not required by law.

Inception Fees –

This refers to any and all fees that must be paid upfront by the consumer at the time of delivery. Look for this under "Amount Due at Lease Signing or Delivery" on the face of the contract.

Lease Contract –

A lease contract is the written document which sets forth all of the terms of the entire lease transaction and is typically issued to the consumer when he or she picks up the vehicle.

Lease Rate –

This is the equivalent of the bank's finance charge.

Lease Term –

This is the number of months the lessee rents the vehicle.

Lessee –

This is the person who leases a vehicle.

Lessor –

The lessor is the owner of the vehicle being leased.

Maintenance Agreement –

This is a contractual agreement arranged by the dealer with the lessee for routine maintenance services, such as oil filter and oil changes; tire rotation; and chassis lubrication, to the leased vehicle. It is typically an after-sell item that requires an additional fee incorporated in the overall lease price or capital cost. You can negotiate the cost of the maintenance agreement with the salesperson.

Manufacturer's Suggested Retail Price or "MSRP"–

This is the list price of the vehicle or the window sticker price.

Money Factor –

It is similar to an interest rate on a car loan when purchasing a vehicle. State and Federal law do not require lessors to disclose this key term of your contract, but it is important to your monthly payment. The higher the money factor, the higher your monthly payment will be. The figure is typically negotiable, so have the dealer get you the lowest rate. The money factor is not expressed in an annual percentage rate, so you need to know how to calculate it. The money factor typically appears as a decimal of four or more digits that, when multiplied by the number 24 (no matter what the term of the lease) will give you a good sense of what your annual interest rate is. The closer the four digit decimal is to .0000, the lower the monthly payment will be.

Example: **24 x .004= 9.6%** *or* **24 x .006=14.4%**

Open–End Lease –

This is a lease in which the lessee's liability at the end of the lease term is based on the difference between the residual value of the leased vehicle and its realized value (the amount for which the car can be sold). This type of lease is not usually used for consumer leasing. It is used mostly by businesses when leasing a large number of vehicles at one time.

Price Quote –

The price may truly be a good one or it may appear competitive because it does not include all of the other costs. Also, the cost of the vehicle is negotiable so if you can get the dealer to lower the cost, it will lower your monthly payment. After you negotiate your best deal, make sure that you get a breakdown of any additional charges such as bank fees, taxes or motor vehicle fees. Then, you can shop and compare the overall cost of each deal.

Purchase Option at End of Lease Term –

This is the price stated in your contract for which you may purchase the vehicle at the end of the lease term and it is usually based on the residual value. If you do not have the option to purchase the vehicle, it should be stated in the lease.

Refundable Security Deposit –

This amount is used to cover any damage or outstanding charges due when the lease term expires. There is no requirement for the lessor to pay interest on the money held.

Rent Charge –

When a consumer purchases a vehicle, this is referred to as a finance charge. This is the amount charged in addition to the depreciation and any amortized amounts.

Residual Value –

This is the value of the vehicle at the end of the lease. It is used in calculating the base monthly payment. This value is usually non–

negotiable and is based on a percentage of the MSRP as calculated by industry guidebooks which may vary between different leasing companies. Sometimes leasing companies keep this number a little high because the higher the residual, the lower your monthly payment and the more attractive and affordable the deal. But, if you plan to purchase the vehicle at end of the lease, the higher residual would generally make the purchase price higher.

Retail Order Form –

A retail order form is an agreement executed by the seller and purchaser or, as in this case, the lessor and lessee, which memorializes in writing the negotiated selling price or negotiated monthly lease payments along with various other material terms of the deal. The lease contract should agree with the term of the retail order form and if during the course of negotiations the terms change, an updated retail order form should be completed prior to the execution of the final lease contract.

Sales Tax or Use Tax –

It is usually included in the Gross Capitalized Cost and put into the monthly payment. Although the dealer has more than one way to calculate the tax, it is almost always on the difference between the Gross Capitalized Cost and the Residual.

For example, if the Gross Capitalized Cost is	_______	$25,000
and the Residual is	______	- $10,000
the tax is based on the difference.	_____	= <u>$15,000</u>

So the 6% (tax rate) x $15,000 = $900 which is the total tax that would be divided over the term of the lease. If, for example, you entered into a 36-month lease agreement, divide the lease term of 36 months into the $900 to arrive at $25, the tax paid monthly.

Service Contract –

Also known as an "extended warranty," this is a contract sold by the dealer on top of the manufacturer's warranty. Like the manufacturer's warranty, service contracts typically cover the major components of a vehicle, such as the engine and transmission. They, however, usually last longer than the average manufacturer's warranty in time and in mileage. You should make sure you get a complete breakdown of what is covered and discuss if the coverage is limited or not. You may still be responsible for the routine maintenance of the vehicle either way. Also, most cars have a three-year warranty, so if you decide on a three-year lease, you may not have any need for a service contract. Remember, service contracts are never mandatory, but they may be worthwhile if you plan to purchase the car at the end of the lease.

Total of Base Monthly Payments –

This is the difference between the Adjusted Capitalized Cost and the Residual plus the Rent Charge which is then divided by the lease term to get the Base Monthly Payment.

Wear & Tear –

This is the incidental damage done to a car while leased. If this is deemed "excessive," this will cost you money at the end of the lease when you return the car. There is no "formula" for determining what defines "excessive." Individual leasing companies determine what they are going to charge. The CPLA requires that a description of the standards used by the lessor in determining excessive wear and damage be spelled out in the contract. Many leasing companies are inspecting the vehicles ***prior*** to the end of the lease. If there is damage, consumers may find it less expensive to repair it themselves rather than pay the amount the leasing company may charge. New Jersey's laws state that the lessee may obtain, at his or her own expense, a professional appraisal detailing the amount required to repair or replace parts or the amount by which the excessive wear and tear reduces the value of the vehicle. This professional appraisal shall be performed by an independent third party agreed to by both the lessor and the lessee, and the appraisal shall be binding on the parties.

There is nothing mystical about how your lease payment is configured if you know how the transaction works. Before you look at the lease process, let's review the basics of buying a car.

When buying a vehicle, one of the first things you probably do when you walk into the dealership is check the selling price of the car you intend to buy. The car has something called a Monroney Label (commonly known as the window sticker) on it, which lists the MSRP. Very few people offer to pay the sticker price. Consumers typically look at the sticker price and begin negotiations. The ultimate cost is determined by what your counter-offer is based on this price, how much you will seek for your trade-in and how much you are able to provide as a down-payment. Once the haggling is done, many consumers begin to think about financing the car and getting the best interest rate, knowing that the higher the interest rate, the more they will pay each month and, eventually, over the life of the deal. A smart consumer not only shops for the best purchase price, but also shops for the best interest rate, expressed as the annual percentage rate (APR.) The dealer may have a good rate, but your credit union or local bank may have a better rate. The choice is yours.

Now, let's look at leasing.

When people lease, a different approach is often used. Leasing advertisements emphasize low monthly payments. The monthly payment is important – that is, how much you have to pay each month – but if you ignore how that payment is reached, you surrender the best chance of negotiating a better deal and a lower payment.

The place to start is still at the MSRP. This figure gives you a rough idea of what the car would cost if you were buying it. It is also probably not far off from the Gross Capitalized Cost of the vehicle – the starting figure that determines your lease costs and monthly payments.

Under State law, the lessor has to list the MSRP on the contract if the Gross Capitalized Cost is more than the MSRP. Once you know the Gross Capitalized Cost, you are ready to make crucial evaluations. If you are trading in your car as part of the deal, the credit for your trade should be subtracted from your Gross Capitalized Cost. If you make a cash payment toward your lease, that should be subtracted from your Capitalized Cost, as well. Once you have subtracted these payments and added in any fees charged by the lessor, you have reached your Adjusted Capitalized Cost.

Now you're ready to subtract some more. The banks, the lessor and financial institutions all keep estimates of what your leased car will be worth when your lease is over. This is known as the residual value of the vehicle. In theory, this residual value is determined by a percentage of the vehicle's original sticker price or MSRP. These are exact percentages which are printed in automotive lease guides provided by leasing companies for internal use by automobile dealers when doing business with leasing companies. You will not have use of the car when the lease is over, so you do not pay for that portion of the car's costs. You should subtract the residual value from the Adjusted Capitalized Cost. This leaves a lump sum which you will pay over the life of your lease. That means you will pay finance charges on the value of the car for the time you have it. Remember, you are also paying finance charges on the residual.

Learn how to calculate the interest rate which is also known in leasing as the "money factor."

What interest rate? Yes, you are paying interest even though lessors are not always eager to disclose this fact, much less the rate, to you. This may also be called the "rent factor" or "rent charge." New Jersey law does not require a lessor to tell you, but insist that he or she informs you about this interest rate.

If you insist on being told the interest rate, the lessor will quote a rate that will likely be in the form of a money factor which is an interest rate. Nevertheless, it is not hard to translate the money factor into a finance rate, once you learn how. This can be done simply by multiplying the money factor by 24. This is explained in greater detail in the Glossary under "Money Factor." This process will convert the money factor to a percentage which is closer to the APR that you are more accustomed to seeing. Compare that to the APR on a purchase and you will have crucial information on the interest rate. You also need to know whether this is the best rate the lessor can give you. Your lessor usually has an array of financing institutions from which he or she can get the financing. <u>If you don't like the rate that you are quoted, make him or her shop for a better rate.</u> Remember, your goal is to get the lowest payment for you.

What are your insurance needs?

Even after you've done all of this, there are other issues with which you need to wrestle. Not only will you need to purchase the automobile insurance coverages that the leasing company requires, such as liability, collision and comprehensive, but it may be advantageous to purchase a coverage called "Gap Insurance." Gap coverage protects you from owing the difference between an insurance settlement and the leasing company's payoff figure. There is usually a difference between the value of the car at any point in time and the amount actually owed on the lease. In most cases, the value of the car is less than the amount still owed on the lease. Many leasing companies will automatically provide you with Gap coverage. <u>Ask your dealer if Gap coverage is included in your contract. If it is, you should not be charged any additional insurance costs.</u>

The Buy-Out

Most leases give the consumer an opportunity to buy the car at the end of the lease. This is known as the purchase option price. If you do not have the option to purchase, it should be clearly stated in the lease. The purchase option price is set by the leasing company based on guidelines which establish the value of the vehicle at the end of a lease. This purchase option price is usually the residual value, although it may be higher. The consumer may want to renegotiate the purchase option price; the time to do this is at the conclusion of the lease. Either the exact dollar amount or the method for determining the purchase price must be spelled out in detail.

Advertising requirements for lessors:

The CPLA also requires a lessor who advertises in print and on television to include the following disclaimers in at least ten-point boldface type:

- that the transaction is a lease;
- the amount of the payment required at the inception of the lease, or that no payment is required;
- the number, amounts, due dates, or periods of scheduled payments and their total;
- the name and address of the dealer; and
- a toll-free telephone number for more information.

If the advertisements are broadcast, the information must be stated while the commercial is being aired. All text that is flashed across the screen must be displayed for at least five continuous seconds. Anyone who calls the toll-free number must be provided the following information:

- the advertiser's business name and address;
- identification of the transaction as a lease;
- whether the advertised price refers solely to a business lease;
- whether the transaction is an open-end or closed-end lease;
- the number, amounts, due dates, or periods of scheduled payments and the total amount of all of the payments;

- all other itemized payments, such as security deposits or capitalized cost reductions required at the start of the lease;
- the cost of the lease;
- the MSRP;
- a statement that the price includes all costs to be paid by the consumer except for licensing, registration and taxes;
- whether you have the option to purchase the advertised vehicle, at what price and over what period of time;
- how the advertiser determines any liability that is imposed on the customer at the end of the lease;
- a statement indicating that the customer will be liable for the difference between the estimated value of the vehicle and its actual value when the lease is up; and
- a statement which clearly explains what is considered standard equipment; whether the transmission is standard or automatic; whether the brakes and steering are power or manual, and whether the vehicle has air conditioning.

What to expect at the end of the lease.

In most cases, the leasing company will contact you to give you instructions for returning the vehicle. They may want to inspect the vehicle prior to your turning it in. They usually want the vehicle returned to the original dealer, but alternate arrangements can usually be worked out if another dealer works with your leasing company. Remember, if your vehicle has excess wear and tear, as defined in your contract, it may be more economical for you to repair it prior to returning it rather than risking the chance that the leasing company's estimate will be more expensive. Read your contract carefully for details. It is best to read it **prior** to signing the lease. When you do turn in your vehicle, you are responsible for signing an odometer statement certifying the end of lease mileage. You should demand a dated condition report with the mileage clearly stated and a detailed review of the condition of the car at the time you turn in the car, with both your signature and that of the representative accepting the car. If you do not get this receipt, it could cost you money down the road. If the leasing company is going to assess you for damage, they are required by the CPLA to do so within 10 business days of the return of the vehicle. You then have seven business days to demand a third–party inspection which would be binding on both parties. In addition, they are required to return your security deposit within 15 business days if there are no charges against it.

If you are going to purchase your vehicle at the end of the lease term, you should read the contract carefully and follow the specific instructions. In many cases, the leasing company may be able to finance the purchase for you.

Remember, the more informed you are by having your specific obligations clearly indicated in your contract, the less likely it will be that you will be upset by a "surprise." This abundance of information will also decrease the likelihood that anyone will be able to take advantage of you. If you take the time to read your entire contract, front and back, before you sign it, you will be better prepared by knowing both parties' responsibilities and obligations.

Conclusion

The Division of Consumer Affairs can make no recommendations about the virtues of leasing versus buying. If you are thinking seriously about leasing, educate yourself about the lease agreement to be certain that the deal you are considering is truly the deal that is right for you.

Sample Worksheet for Auto Leasing

The purpose of this worksheet is to help you become more familiar with an auto lease, including the standard language used in the lease agreement and the related costs. Before you sign on the bottom line, refer to the Glossary in the "Don't Be Taken For A Ride Guide" for terms in the contract that are unfamiliar.

Contracts of any type can be confusing and an auto lease is no exception. Lease agreements are binding for several years so insist upon reading and understanding everything in the lease **before** you sign. Under the CPLA, you have 24 hours to review the ***unsigned*** contract. If you do not take the 24 hours for that review, the dealership has to give you a waiver to sign, acknowledging that you have chosen not to take that opportunity, as provided by law. If the deal you agree to is "not available" the next day, you might want to consider comparing the price at another dealership. Auto leasing is competitive and another dealership may be able to offer you the deal that you want. Your hard work will pay off later.

Review this checklist so that you don't pay for items or services that are not required or wanted. Insist that any verbal promises are confirmed in **writing**. If you do not insist that any verbal promises be written down, you will have a hard time proving the promise was made.

It's a good idea to **take notes** while discussing the terms of the lease with the salesperson. When actually completing the contract, use the information and numbers from your notes to make sure your figures, especially the final figures, match those in the contract. Do not sign the lease if it has not been completely filled out. It is extremely important that you take your time and ask questions until you have a thorough understanding of the lease.

Listed below are some of the terms used when leasing a car which you should understand prior to entering into a lease agreement.

1. Gross Capitalized Cost
2. Trade-In Value
3. Capitalized Cost Reduction
4. Total Monthly Payment
5. Amount Due at Lease Signing

Note that all figures used below are strictly examples. They are not actual percentages, fees or costs on which you should rely when calculating your own lease.

1. Gross Capitalized Cost/Inception Fees .... $ 29,501.96

Your gross cap cost is the selling price of the vehicle ***plus*** *taxes, extended warranties, after-sell items, or the balances on a trade-in. For example:*

Agreed upon value of the vehicle *(selling price)*		$ 28,568.00
Administrative fee (*fee to process a lease*)	+	$ 300.00
License/registration/title fees	+	0.00
Sales/Use tax (cap cost–residual) x 6%	+	$ 533.96
Optional Service Contract	+	0.00
Optional Life Insurance	+	0.00
Optional Disability Insurance	+	0.00
Other **options** you choose to add such as: maintenance contracts, alarm system, CD player, undercoating, and/or outstanding prior balance on a trade-in.	+	$ 100.00
GROSS CAPITALIZED COST	**=**	$ 29,501.96

2. Net Trade-In Value

Gross trade-in value	+	12,500.00
Payoff	-	12,000.00
NET TRADE-IN VALUE	=	$ 500.00

3. Capitalized Cost Reduction (down payment)

Net trade-in value	+	500.00
Rebates and noncash credits	+	$ 200.00
Down payment	+	$ 900.00
TOTAL CAP COST REDUCTION	=	**$ 1,600.00**

4. Monthly Lease Payment

This is determined as shown below:

Gross capitalized cost (*from item #1 above*)	$ 29,501.96
Capitalized cost reduction *(from item #3 above)*	- $ 1,600.00
Adjusted capitalized cost	= $ 27,901.96

Gross Capitalized Cost ***minus*** *Capitalized Cost Reduction*

Residual value	- $ 20,068.62

This figure is provided by the leasing company.
This is the value of the vehicle at the end of the lease.

Depreciation

The amount you would have to finance on the lease for this car	= $ 7,833.34

Adjusted Cap Cost ***minus*** *Residual Value*

Lease term	36 months
Divide the depreciation ($7,833.34)	
by the length of the lease (36 months).	$ 217.59

Using this calculation, you will arrive at a figure of $ 217.59, the equivalent of the principal portion of any payment you would make if you were purchasing the car. But you have been quoted a loan payment of $ 371.10. Where did the other costs come from? Two words: rent charges. The difference between $ 371.10 and $ 217.59 is $153.51 which is the rent charge. How did they figure this?

First, add the:

Adjusted Capitalized Cost	$ 27,901.96
Residual Value	+ $ 20,068.62
	= $ 47,970.58
Money Factor	x .0032
(A percentage provided by the leasing company)	
Monthly Interest Charges	= $ 153.51

Then add:

Monthly Depreciation	$ 217.59
to the Monthly Rent Charge	+ $153.51
TOTAL MONTHLY LEASE PAYMENT	$ 371.10

5. Amount Due At Lease Signing or Delivery .... $ 2,614.00

This amount is paid before you drive off with the vehicle or "take delivery."

Capitalized Cost Reduction	$ 1,600.00
First Monthly Payment	$ 371.10
Refundable Security Deposit	$ 400.00
Title fees	$ 99.00
Registration fees	$143.90
Sales/Use tax	* 0.00

**(Already factored into the Gross Cap Cost)*

AMOUNT DUE AT LEASE SIGNING .... **$ 2,614.00**

FOR YOUR FIGURES

Monthly payment ________________

Number of monthly payments ________________

Your total of all monthly payments ________________

Date of first payment ________________

Other ________________

____

____

____

State of New Jersey
Department of Law and Public Safety
Division of Consumer Affairs
P.O. Box 45027
Newark, NJ 07101
Phone: 973-504-6534
Fax: 973-648-3306

James E. McGreevey
Governor

David Samson
Attorney General

Reni Erdos
Acting Director

Internet 3/02